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OFFICE OF INTERNAL OVERSIGHT SERVICES
INTERNAL AUDIT DIVISION

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07 January 2002

To: Mr. Rolf G. Knutsson, Executive Secretary
United Nations Compensation Commission

From: Esther Stern, Director
Internal Audit Division
Office of Internal Oversight Services (OIOS)

A handwritten signature in black ink, appearing to read 'ES', is placed over the name 'Esther Stern'.

Subject: OIOS Audit of the Processing of Category 'D' Claims

1. I am pleased to present our report on the subject audit. OIOS commenced an audit of the Processing of Category 'D' Claims at the United Nations Compensation Commission (UNCC) from February 2001. This report presents the result of Phase I of subject audit. The results of the audit were initially communicated to UNCC through an Audit Observation (No. 835/01 dated 8 October 2001), to which UNCC management's reply was received on 29 October 2001.
2. After careful consideration of the response, we are pleased to inform you that we have closed in our recommendation database the recommendations 101, 102 104 and 106. However, recommendations 103 and 106 remain open. We would appreciate receiving additional information as indicated in the text of the report and a time schedule for implementing each of the recommendations.
3. I take this opportunity to thank the management and staff of UNCC for the assistance and cooperation provided to the auditors in connection with this assignment.

Audit objectives and scope

4. Category 'D' contains 10,734 cases with an asserted value of \$11.35 billion. As at 2001 January 3,159 cases with an asserted value of \$0.9 billion were resolved in seven instalments and the remainder is planned to be resolved through the end of year 2003 in another 12 instalments. The first phase of our audit covered claims resolved up to 5th instalment. We reviewed 75 claims out of 2,396 'D' claims in instalments 1 to 5, with a total asserted value of \$192.69 million or 29 per cent of the total asserted value. The sample claims included those with asserted values above \$1 million and zero awards.
5. The audit evaluated the adequacy of internal controls in claims valuation and verification process, compliance with prescribed rules and procedures, methodologies developed and its consistent application in the processing of claims. We reviewed the supporting evidence submitted by the claimants and the claims worksheet, and valuation conducted by the UNCC D

claim teams, and recommendations of the Panel to the Governing Council on the amount of compensation to be awarded. We also interviewed UNCC officials who were involved in processing 'D' claims.

Audit findings and recommendations

6. In general, OIOS noted with satisfaction that UNCC had established adequate internal controls on claims registration, processing of claims and payment to successful claimants. We also noted in particular that standardised methodologies had been developed and consistently applied in the valuation of the claims. However, there were several issues needed to be brought to UNCC managements' attention for further improvement of claim processing and done calling for corrective actions. These are summarised in the section below of the report.

Documentation policy for claim file

7. OIOS reviewed individual claim files in order to determine a complete and sufficient audit trail. We noted some instances where important documents were not filed in the individual claim file, but were rather filed separately or where documents were mixed. We also noted instances where the documentation was not detailed enough to support the accuracy of the award amount. We further noted that in some cases the necessary follow-up actions on the issues raised during the claims review were not included in the claim file.

8. UNCC informed us that they also had recognised a need to improve the filing and documentation. UNCC assured us that although the follow-up actions were not filed in the individual file, the issues had always been followed up by fax, e-mail exchange or in the panel meeting, which were kept in a separate file. In addition, we were informed by the Chief of Legal Service branch responsible for category D claim and the Registrar that a claims file policy and checklist were being developed and a policy decision was being awaited regarding the types of documents to be kept on file in consultation with the Office of Legal Affairs of the United Nations.

9. OIOS recommended that UNCC ensure that policies and guidelines on standard filing and documentation for the claim file be developed without further delay (Rec. # AE2001/16/1/001) and also ensure that the policies and guidelines be applied to the claims already processed as well as to the claims in process (Rec. # AE2001/16/1/002). *UNCC management explained that in February 2001 a list was developed identifying those documents that must be kept on each claim file and other documents that should be kept on instalment basis. In addition, UNCC management informed that as a part of its planning for the winding-down of the Legal Service Branch, the secretariat is drafting a proposed document retention and disposal policy to be put before Governing Council in December 2001 for approval. The management further explained that once a policy has been approved, it will be applied to all claim files, including those already processed. Recommendations 001 and 002 are closed.*

Claims with inconsistent application of valuation methodologies

10. OIOS found four claim cases for which the methodology had not been consistently applied. We noted that claims #3005298 and #3005299, the valuation scores were not applied to the adjusted claim amount, but rather to the original claim amount before the claim amount were reduced by the loss adjuster. We determined that those resulted in overcompensation of \$468,130 (\$250,112 for # 3005298 and \$218,018 for #3005299, respectively). UNCC informed

us that the subject claims were discussed at the Panel meeting in March 2001. We were told that the Panel stated that it had relied on the recommendation of the consultants in determining the appropriate amount to be adopted, which we found did not necessarily address the issue of inconsistent application.

11. We recommended that UNCC provide concrete documentary evidences justifying the inconsistent application of prescribed methodology for claims #30005298 and #3005299 or otherwise recover the overcompensation of \$468,130. (Rec. # AE2001/16/1/003). *UNCC management replied that the Panel of Commissioners again determined that, due to the specific circumstances of these two claims, alteration to the methodologies were appropriate. However, OIOS maintains that the justification was not sufficiently explained. In order to close recommendation 003, we request details of the specific circumstances that required an alteration to the methodology.*

12. In other cases, OIOS noted in Claim # 3000526 that the valuation score for cloth sub-category was defaulted to 70% instead of 40% as per the methodology. We also noted the valuation score for furnishing sub-category was defaulted to 80% instead of 65.29 % as per the methodology. This resulted in overcompensation of \$20,978. Moreover, we noted in Claim # 3002576, that the asserted monthly income of \$4,867.20 as supported by the valid employment contract was mistakenly reduced to \$4,105.28. In addition, we noted that the salary from different employer was mistakenly deducted from the calculated award as compensation from different sources. This resulted in undercompensation of \$10,061.87.

13. We recommended that UNCC ensure the recovery of the overcompensation of \$20,978 for claim # 3000526 (Rec. # AE2000/30/1/004) and we also recommended that UNCC ensure additional compensation of \$10,061.87 to the claimant of claim # 3002576 (Rec. # AE2001/16/1/005). *UNCC replied that those errors were the subject of an article 41 corrections and were included in the article 41 reports that was approved by the Governing Council at its September 2001 session. Recommendations 004 and 005 are closed.*

Need to determine methodology to be applied to loss of gold by gold trader

14. In claims for loss of personal properties, invoices or receipts are accepted as proof of purchase and loss. However, in claim # 3005304, whose claimant traded in gold as opposed to ordinary individuals, it was felt that the claim would warrant a different valuation more akin to that for business losses. It would call for proof of the loss of inventory of gold due to the war, as the invoices submitted could be in respect of gold that had been part of stocks sold. UNCC agreed to take this issue up with the D claim Panel of Commissioners to determine if a different methodology should apply.

15. OIOS recommended that UNCC determine whether a different valuation methodology should apply to the cases where gold traders claimed their gold loss as personal property loss rather than as part of business loss (Rec. # AE2001/16/1/006). *UNCC management informed that the treatment of claim # 3005304 had been considered by the secretariat and would be presented to the Panel of Commissioners for discussion. In order to close this recommendation, we request the result of the discussion.*

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